

# Alphinity Concentrated Australian Share Fund

MONTHLY REPORT – July 2025



## Iron Awe

### Market comment

A major theme in our market over the last few years has undeniably been the strength in Financial companies relative to Commodity producers. While there have been numerous head-fakes, mostly around China stimulus, during which Resources began to show some fight, so far they have proved short-lived as the hard data of a China recovery hasn't supported the rhetoric. In July, there was another of those rotations. To be in awe of iron ore is probably a little too flattering. The bulk steel ingredient moved 6.4% higher in July in a much needed bounce (the federal budget depends on this!), along with strength in steel and oil prices as Trump put sanction pressure on Russia. Overall, our market held up well despite the shift in performance leadership among sectors, with the ASX 300 index (including dividends) closing up 2.4%. That's a pretty impressive 9% year-to-date return despite all the tariff volatility and lack of positive earnings revisions.

In AUD terms, global stocks outperformed Australia and moved 3.5% higher, thanks largely to the USD finally breaking its downward trend and strengthening against our currency. US shares did the heavy lifting (S&P 500 +4%), while the rotation into Europe suffered a hangover (Euro Stoxx 600 flat) with some of the region's bellwether stocks such as SAP, ASML and Novo Nordisk all stumbling. Parts of the Industrials and the Luxury consumer space in Europe were notably weaker, while US mega cap tech stocks were back in vogue. Emerging markets were mixed. Strength in China, Taiwan and Korea was offset by weakness in India and in Brazil as the US imposed a 50% tariff on some exports including coffee and orange juice. Higher coffee prices look set to continue sadly!

Globally, we saw the momentum unwind trade (aka MOMO unwind) whereby many higher quality stocks with good earnings momentum were sold in favour of cheaper 'value' stocks or those with a high degree of short interest. There were certainly periods in July during which this rotation was severe, often known as a 'junk rally'. This quickly reversed course as US companies began to report their 2Q 2025 earnings with a level of market sanity prevailing as companies delivering earnings and guidance upgrades were rewarded with solid gains. Conversely, those with disappointing guidance were punished, even if they had produced quarterly earnings beats.

Moving back home, as we gear up for our earnings season, there was plenty to learn from myriad production updates from the miners and the energy companies. BHP and gold miner Newmont both produced good quarterlies,

offsetting some poor operational updates from the other gold miners, while Rio ran out of steam at the end of the month with an earnings release that missed expectations. Rio also lowered its dividend which never pleases Aussie investors who value high dividend yields, even from resource stocks. Most commodities rose in July, with iron ore, steel and oil prices all rising although copper gave back some of its recent rally. Copper prices trading on the US COMEX exchange had a wild month with participants buying and stockpiling inventory on the US exchange ahead of the imposition of Trump's copper tariffs. But his inner TACO came out again and a watered-down tariff resulted in a sharp unwind of the aggressive buying on the US exchange and Copper futures fell by 20% intraday at the end of the month. This took the US copper price back closer to the level it was trading on the London Metals Exchange.

The funding for the buying in the miners largely came from financials. Macquarie had a fall from grace when more than 25% of its shareholders rejected the executive remuneration plan at its AGM given some recent lapses in risk management. Financials were the weakest sector performer, losing 1%, while the recently beaten-up Healthcare and Energy sectors enjoyed being on top of the table, returning 9% and 5% respectively.

Economic data were supportive with a beat in retail sales combined with a lower-than-expected CPI print helping retail stocks. The RBA minutes released prior to the CPI print were a tad on the hawkish side, with Governor Bullock suggesting the monthly CPI data may not fall as much as forecast in May and suggested that rates may not need to be lowered as much. Life isn't as rosy for Federal Reserve bankers and labour statisticians in the US. After a weak jobs report and a huge downward revision to prior months' numbers, Trump fired the head of the Bureau of Labor Statistics, and again suggested that Fed Governor Powell be 'put out to pasture'. It's drawing a pretty long bow to suggest a labour market statistician was 'rigging' jobs data, but to be expected from Trumpy.

### Portfolio comment

The Fund outperformed the market slightly in July. The biggest contributors were gold miner Newmont, financial platform HUB24 and having no exposure to Macquarie Group. Detracting from returns was having no exposure to energy producer Woodside Energy or iron ore miner Fortescue Metals, with both companies reporting strong quarterlies in addition to the rallies in iron ore and oil spot prices. A small underweight to the plasma products healthcare giant CSL also slightly detracted.

Performance*	1 Month %	Quarter %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception^ % p.a.
Fund return (net)	2.4	8.5	15.1	12.9	12.2	9.6	10.4
S&P/ASX200 Acc. Index	2.4	8.2	11.8	12.3	12.3	8.6	9.1

\* Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance. Source: Fidante Partners Limited, 31 July 2025.

^ The Fund changed investment manager and investment methodology on 12 July 2010, at which time Alphinity Investment Management commenced managing the Fund and started the transitioning of the portfolios to a structure consistent with Alphinity's investment views. The transition was completed on 31 August 2010. The inception date for the returns for the Fund is 1 September 2010. For performance relating to previous periods, please contact the Fidante Partners Investor Services team on 1300721637 during Sydney business hours.

## Market outlook

The more things change, the more they stay the same. There has been a lot of expectation, a lot of speculation, but to date no capitulation (and no stagflation for that matter either)! While little has materially shifted so far, the future landscape is at least a bit clearer following the recent 'agreements' on US tariffs rates (ex the big one - China). Raising tariffs from low single digits to the mid-teens is no small move: these are the highest US tariffs since the 1930s. Even if they're not the worst-case scenario, the tariffs are a significant development, and Trump's firm stance means he essentially got what he wanted. He did not, after all, chicken out (no TACO for you).

Markets, meanwhile have pressed ahead regardless, swiftly moving from one anticipated saviour to another: from the initial TACO trade to expected rate cuts, fiscal stimulus, resilient economic outcomes, enthusiasm for AI-driven growth, and now a new buzzword, "anti-involution". Despite Trump's best efforts, the US economy has not fallen over, and remains, by-and-large, resilient. There's growing hope that we've already passed the peak period of risk and that everyone will adapt. However, the reckoning point is fast approaching and the real economic impact of these policies will soon become clearer. While we all 'know' the risks, it is surprising how often bad news is not fully expected when it actually arrives. Buy the rumour, sell the fact? The facts are rapidly approaching. We're cautious when it comes to potential future inflationary and economic growth impacts.

This caution is especially important for Australia as we re-approach recent Price/Earnings (PE) multiple highs — presently about 30% above long-term averages. As August reporting season begins, we're set to record a third straight year of negative earnings growth, even as equity markets have delivered three straight years of double-digit returns. Goldman Sachs notes that this has been a 35% market rise on 10% lower earnings. Markets are clearly pricing in a much more optimistic outlook on earnings.

To be fair, history suggests things should get better — the market has never seen 4 consecutive years of negative earnings growth in the last 40 years of data. Current expectations are for earnings growth to be in the positive mid-single digits for FY2026. When you consider bank growth expectations are largely flat, that is a lot of heavy lifting elsewhere to come through. However, we are not sure that companies in general will know a lot more at this August reporting season to be able to give us any more confidence about the outlook. If anything, companies are likely to be conservative, putting more risk on earnings expectations.

On a positive note, Australia may be better positioned than most countries. Interest rates are moving downward, the economy is muddling through, and fiscal spending remains supportive. Consumers are adapting, the decline in construction appears to be stabilising, unemployment is still low, inflation is under control, and earnings expectations have been lowered. So, earnings should improve on previous years, even if they may struggle to fully justify current valuations. Of course, we can't ignore global outcomes either with half our companies' with offshore earnings. Where the US goes, so do we.

That brings us to China and "anti-involution". This is just a cool way of saying "taking out excess capacity" (we had to look it up too). It is the latest program in a long line of Chinese attempts to revive its economy, which so far have come with little detail, little follow through and dubious outcomes. China has a deflation problem stemming from capacity excesses in not only housing but also in industries such as steel, cement, solar panels, cars, and EV batteries affecting some of our Australian raw material exports, e.g. iron ore and lithium. Paired with the announcement of the construction of a new mega-dam that will take 10-15 years and uses relatively little steel, this was enough to fuel yet another attempted market rotation in Australia. That has largely meant a switch out of Financials into Commodities (winners vs losers). The only difference has been that this one has had more legs than the prior attempts, with various commodity prices holding up well versus previously lowered expectations.

As we have been harping on for some time, the market wants to rotate, it just hasn't had an obvious home for the rotation. As such, each year-to-date attempt has fizzled out. Is this time different? Mining companies, outside of gold, have underperformed for some time and represent the 'value' part of the market. It has also been the negative earnings revisions part of the market. For this time to be different, something has to change earnings-wise. It may be 'less negative' now, but we are struggling to see miners turning materially and sustainably positive, without a lot more confidence in global growth and more effective Chinese stimulus. Getting this rotation (or non-rotation) right will be the call of the year, we suspect. It feels half-hearted for now. The music hasn't quite changed yet with any conviction, but we are dancing closer to the door.

## Portfolio outlook

The portfolio continues to adjust to market conditions. While we can't ignore the rotations in the market, we remain sceptical until we see proof of any sustained earnings rotation and leadership change. Despite no evidence of this yet, the resources space has potential for near term upgrades if commodity prices hold up. Closing some of that underweight risk seems prudent, although getting more excited about it would require some real change in the underlying supply-demand dynamics, which we don't yet see. Likewise on the other side of the ledger, the recent winners in the market (financials, parts of consumer, tech, defensives) continue to look better on the earnings front.

Reporting season will sort the wheat from the chaff, but large changes are yet to become evident. Banks have been the obvious funding source of late (CBA) for the attempted rotation, but earnings are likely to hold up relatively well. We are also likely past the peak of the persistent bank earnings upgrades of the last 18 months, but any material roll-off in earnings seems a while away. We remain underweight largely through CBA (valuation) and ANZ (earnings outlook, strategic uncertainty). Outside those, valuations and earnings outlooks seem fine to us. Insurance also came under rotation pressure more recently, given their strong run. We don't find the sector particularly expensive, and earnings likely remain solid. We are conscious we are past the peak cycle for price growth, but margin expansion and resilience are expected to remain for some time. Taking some off the table seems prudent, but nothing yet of substance to see us move away from our overweight position.

While the portfolio remains a bit on the defensive side, this is due to following bottom-up earnings, not a top-down decision. With consistent downgrades in the market, defensive sectors continue to stand out as a safe harbour. Should the global economy exceed current expectations, we could see the cyclical rotation take a more permanent hold. This will ultimately come through earnings, and we will adapt the portfolio as required. Largely the portfolio changes have been to add stocks with idiosyncratic earnings stories and less reliance on global growth, or a major correlation with Trump's decisions. We've added in materials, industrials, consumer, telcos and REITs following that path, diversifying the portfolio further into an uncertain next six months.

Top five active overweight positions as at 31 July 2025	Index weight %	Active weight %
BHP Group Limited	7.6	3.3
QBE Insurance Group Limited	1.3	3.0
ResMed Inc	1.0	2.9
Newmont Corp	0.4	2.8
Amcort Limited	0.3	2.6
Asset allocation as at 31 July 2025	%	Range %
Securities	99.3	90-100
Cash	0.7	0-10

### BTW

Is the meme theme coming back to life? Some crazy retail trading that took place during July seems to suggest that it might be the case. We reported on this back in January 2021. Back then, an online identity known as Roaring Kitty started buying GameStop shares, a company which was in the doldrums given that it sold PC games in physical stores all over the US. GameStop was generally placed in the “Blockbuster Video” category of moribund businesses and had been heavily shorted among the hedge fund community. At its low point, GameStop was so heavily targeted that more than 140% of the company’s public float had been sold short, which meant that more shares were bet against it than even existed.



Source : Getty Images

This all happened to coincide with the Covid hangover, during which millions of bored youngsters sat in their bedrooms with fat welfare checks and not much to do. Not surprisingly, gambling and drinking were key beneficiaries of the global lockdown (along with buying cavoodles and kayaks), and the retail trading “Meme stock” craze was born. Keith Gill (aka Roaring Kitty) started a movement which resulted in a “short squeeze” in GameStop, forcing wealthy hedge funds to cover (close out) their short positions, realising massive losses. It was not just a hugely successful scheme, it was also an “up yours” to the Wall St hedge fund community, perceived by many young struggling unemployed Americans as white collar crooks who made too much money. Roaring Kitty shared his massive personal bet via YouTube and Reddit (under “Wallstreetbets”) where he made USD48 million from an initial investment of \$53k.

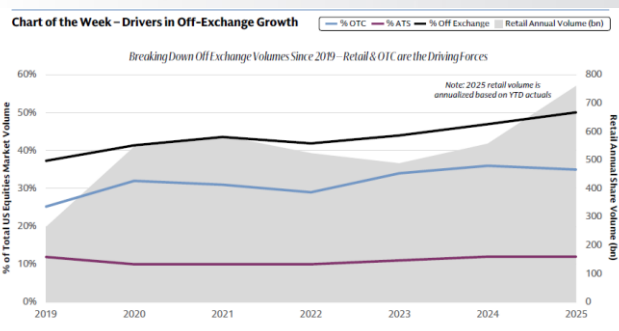
He became a legend and amassed a huge online following, with users and loyal followers proudly calling themselves ‘Apes’ or ‘Degenerates’. Cats and Space Rockets dominated Meme art, with phrases such as ‘diamond hands’ (for holding through volatile periods) and ‘paper hands’ (for selling early) commonly being thrown around chat rooms. A Hollywood film “Dumb Money” was even made about it and is well worth watching. The impact on some hedge funds was large, with Melvin Capital and Citron Capital suffering huge losses. Melvin Capital lost billions and ultimately shut down in 2022, while Citron completely stopped publishing its short-selling research after the squeeze.

Fast forward four years and it’s hard to believe that stock markets are hitting all-time highs despite little to no earnings growth and trepidation around investment decisions in a post-tariff world. Supporting the market has been increasing retail trading activity and a question often asked by ourselves and by our clients is why

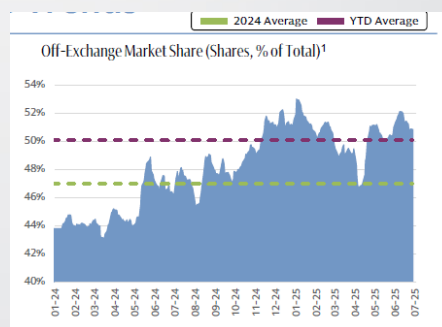
deep, liquid markets like the US have stocks with such wild moves. It’s understandable that prices of small, less liquid markets can fluctuate based on lack of volume which can create a liquidity vacuum and distort prices. But it’s odd when you see companies with more than \$100bn in market cap having daily moves of +/-10%. Some of this can be explained by the rise in ‘robot’ trading, with high frequency algorithms exacerbating moves, especially around events like an earnings announcement.

Another factor is that most retail flow never actually hits “accessible” exchange volumes. Rather, this flow is sold to massive market-making trading firms such as Citadel and Virtu, and then taken off the exchanges so these huge firms can trade against this retail flow. (Just as an aside, the CEO of Citadel Ken Griffin is worth a cool USD48 billion. There is clearly much money to be made in trading against retail flow with super-fast high frequency trading!) The selling of this flow from US retail brokers like RobinHood to these massive hedge funds is called ‘payment for order flow’. The irony is not lost on us that a firm called RobinHood is actually profiting by selling retail flow to help some of the richest hedge funds make profits. Of course, those retail brokers claim that zero commission trades are helping the small end of town. Hey, it’s a win-win for everyone! Perhaps not for market liquidity. An interesting chart recently published by Goldman Sachs showed that 2025 is tracking to be the first year on record in which off-exchange volumes surpass on-exchange.

A large reason for this is due to increased retail activity which has been sold to hedge funds and traded off exchange. On the chart below, the black line represents the amount of volume traded in



“OTC” markets (over-the-counter). This volume isn’t visible or accessible on the actual stock exchanges. It is now more than 50% of all US daily volume traded. The chart below shows the step-up in retail trading activity just over the last couple of years, with a clear step-up in the last year and a half.



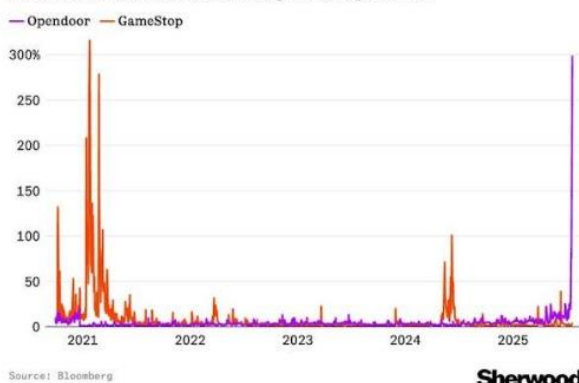


## BTW (Cont'd)

So, what replaced GameStop last month as the new potential meme stock? While the moves haven't been as eye watering, Opendoor Technologies has certainly come up on the radar with some huge moves driven by retail trading. Opendoor is a property technology company, an online platform that allows US homeowners to quickly sell their homes for cash, and also for buyers to purchase home directly from Opendoor. Its stock price is up more than 460% in a year, despite the US housing market stagnation. One observer said it's "a little bit like buying a lottery ticket to a roller coaster". Until recently the company (which was listed as a SPAC back in 2021) was trading below \$1 and was at risk of being de-listed. At the end of July it was priced at USD2.86, a lazy +250% return in 1 month.

### Opendoor nearly hit peak Gamestop

Dollar volume traded as share of closing market capitalization



The other stock under the meme spotlight was American Eagle Outfitters. This stock rallied 12% in a day after the company unveiled a new denim campaign with Sydney Sweeney as its latest brand ambassador. It featured a rather clever title "Sydney Sweeney has great jeans". Roaring Kitty and the retail army had fingers on buy buttons and the stock rocketed before coming back to Earth and closing with a meagre 12% gain.

While meme stocks can provide huge short-term gains, they can also crash pretty hard when the heat comes out. At Alphinity, we don't ride that meme roller-coaster, instead focusing on quality, reasonably valued companies in earnings upgrade cycles. We might miss those companies which make gains of 50% in a day, but we'll also miss the slumps when they revert to fundamentals too. That's a roller-coaster we're happy to stay away from.

## Travellers' Tales

In June, Moana and Jas from the ESG team took a trip to Tasmania to explore the world of farmed salmon, a sector that's increasingly in the spotlight as nature-related risks climb the investor agenda. While salmon farming is often praised for being a low-emissions protein source, it's also a complex ESG story. The environmental footprint, biodiversity concerns, and community tensions make it a fascinating case study in balancing sustainability with commercial viability.

The team visited a range of stakeholders, from Tassal and the Aquaculture Stewardship Council to NGOs like Neighbours of Fish Farming and Living Oceans. One of the standout moments was a visit to the Institute of Marine and Antarctic Studies, where they saw first-hand the progress of the Maugean Skate breeding program. This endangered fish species has been under threat due to deteriorating conditions in Macquarie Harbour, but recent conservation efforts show promising signs of recovery. That said, the extinction risk still needs to be closely monitored.



Technology is playing a big role in shaping the future of salmon farming. Tassal, for example, is using AI-driven feed systems and all sea pens across Australia are remotely operated in Hobart. And while some companies are making strides, community trust is still



fragile, especially on Tasmania's East Coast, where concerns about amenity, environmental transparency, and foreign ownership are fuelling opposition.

One of their more surprising findings was the variation in seafood certification standards. ASC stands out for its

strict criteria monitoring requirements of dissolved oxygen levels but other schemes, such as BAP and GLOBALG.A.P, seem less robust. This raised questions about greenwashing and what this means for the salmon retailers who rely on these certifications for their responsible sourcing commitments.

## Travellers' Tales (cont'd)

Overall, the trip highlighted the way in which salmon farming in Tasmania reflects broader themes in nature-dependent industries. Climate change, warming waters, and oxygen depletion are putting pressure on ecosystems and operations alike. And without strong governance and genuine community engagement to maintain social licence, even the most advanced technologies won't be enough to secure long-term sustainability. For a deeper dive into these insights, check out our full research note [here](#).

Sticking with ESG, Moana also went to Western Australia in July to explore the way mining companies are managing environmental and social impacts on the ground. She saw a range of companies including South32, Newmont Mining, Fortescue Metals, Pilbara Minerals, Sandfire Resources, Greatland Resources, Capricorn Metals, Paladin Energy and Liontown Resources. A standout moment from the trip was speaking with the Robe River Kuruma and Yinhawangka Aboriginal Corporations. Their insights into co-management, agreement modernisation, compensation and evolving relationships with miners like Rio Tinto were insightful reminders of the importance of genuine engagement and long-term partnerships between miners and Traditional Owners.



Nature rehabilitation efforts at South32's bauxite mine were impressive, with diverse seed banks, eDNA tracking and biodiversity monitoring now helping to bring back 75% of flora species to site. The tenure of the rehabilitation team was remarkable. The manager has been working on the project for 18 years, and one of his colleagues has been contributing for more than 40. Their deep connection to the land was evident and added a layer of authenticity to the environmental stewardship underway. That said, with environmental permitting becoming increasingly stringent in Western Australia, mining companies are finding they need to invest in biodiversity specialists to collect detailed species data, plan offsets early, and demonstrate deep ecological understanding in order to secure approvals.

Technology is reshaping mining too. Autonomous vehicles and AI-assisted digging are gaining traction, and Moana was pleasantly surprised to see Tomra Systems' advanced sorting tech (usually found in return-to-earn drink bottle recycling machines) being used at scale to sort ore grades at Pilbara's Pilgangoora lithium mine.

The company meetings themselves were buzzing with ESG insights to share, and the energy around investing in people, safety and environmental impact was strong. Seeing solar arrays and battery storage systems in action, powering operations to reduce reliance on diesel, was a reminder of the sector's move to decarbonise. Companies are trying more balanced FIFO rosters like 8:6 (8 days on, 6 days off) to support mental health and enhance family life, even if it came at a higher cost. It's clear that the region is committed to shaping a more sustainable future in responsible mining.



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### For further information, please contact:

#### Fidante Partners Investor Services

Phone: 1300 721 637 Email: [info@fidante.com.au](mailto:info@fidante.com.au) Web: [www.fidante.com.au](http://www.fidante.com.au)

#### Fidante Partners Adviser Services

Phone: 1800 195 853 Email: [bdm@fidante.com.au](mailto:bdm@fidante.com.au) Web: [www.fidante.com.au](http://www.fidante.com.au)

#### Alphinity Investment Management

Web: [www.alphinity.com.au](http://www.alphinity.com.au)



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